USAID STRATEGIC ECONOMIC RESEARCH AND ANALYSIS – ZIMBABWE (SERA) PROGRAM

DRAFT REPORT ON THE REVIEW OF THE IMPACTS OF STATUTORY INSTRUMENT 64 OF 2016

CONTRACT NO. AID-613-C-11-00001

This report was produced by Nathan Associates Inc. for review by the United States Agency for International Development (USAID).

SEPTEMBER 2016

USAID STRATEGIC ECONOMIC RESEARCH AND ANALYSIS – ZIMBABWE (SERA) PROGRAM

DRAFT REPORT ON THE REVIEW OF THE IMPACTS OF STATUATORY INSTRUMENT 64 OF 2016

USAID CONTRACT NO. AID-613-C-11-00001

Program Title:	**USAID Strategic Research and Analysis – Zimbabwe (SERA)**
Sponsoring USAID Office:	**USAID Zimbabwe**
Contract Number:	**AID-613-C-11-00001**
Contractor:	**Nathan Associates Inc.**
Date of Publication:	**September 2016**
Author:	**Fanuel Hazvina**

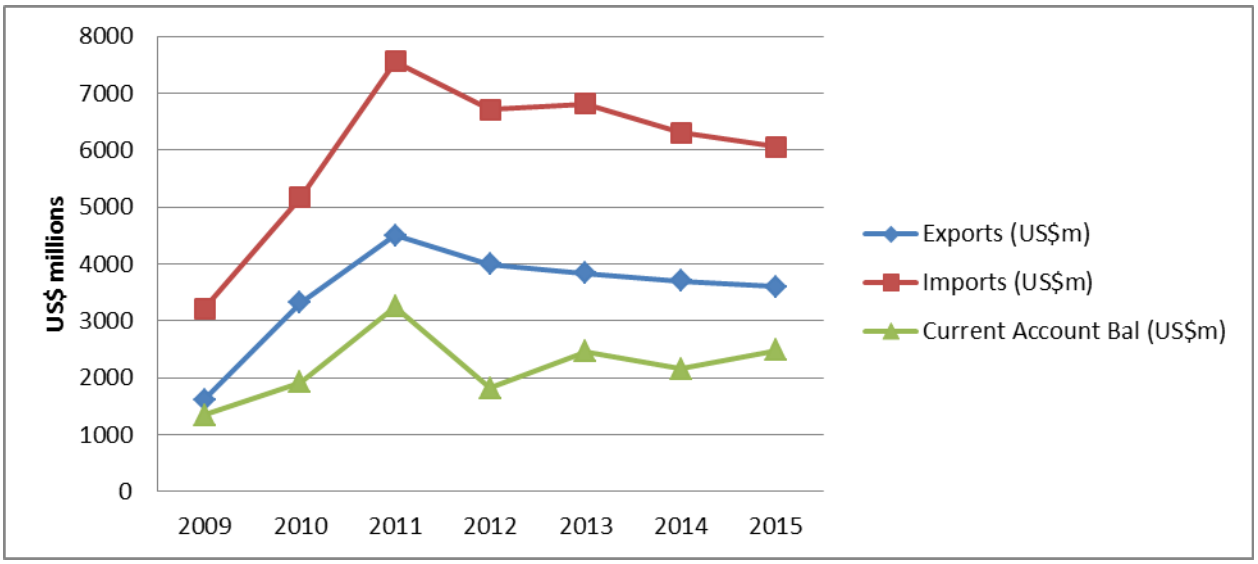
Table of Contents

1 Introduction and Background

1.1 Trade Performance

Zimbabwe's economic rebound during 2009-12 has since dampened and GDP growth has slowed to only an estimated 1.1% in 2015. The multicurrency system, introduced in 2009, had helped to grow the economy, but economic productivity and exports have failed to keep pace, leading to import-dependence, a widening trade deficit, and a liquidity crisis. The trade statistics below reflect this worsening trend.

Figure 1: Zimbabwe's Trade Performance (2009-2015)



Source: Zimtrade Trade Statsistics Database

Figure 1 above shows that exports have remained stagnant since 2012, and in fact are showing a marginal decline in the recent period. This is a reflection of the un-competitiveness of domestic industry and the depreciation of the Rand, which has made exports to South Africa, the main export market, more difficult. Imports surged in the aftermath of the introduction of the multi-currency regime. However, since then they have shown a declining trend but still remain at very high levels, causing a trade deficit between $2 billion to $2.5 billion in recent years. This huge trade deficit has been one of the major factors underlying the current liquidity crisis.

1.2 Statutory Instrument 64 of 2016

In response to the deteriorating current account balance as shown in figure 1, the Government of Zimbabwe through the Ministry of Industry and Commerce responded by gazetting Statutory Instrument No. 64 of 2016 (SI64/2016) as an amendment notice to Statutory Instrument 8 of 1996 (SI 08/1996). The SI 64 adds a list of imported goods to the existing schedule of controlled imported goods as contained in a notice of SI 08 of 1996. This provision is legally permissible in the domestic setting under the Control of Goods (Imports and Exports) (Commerce) Regulations of 1974. The SI 64 is not a total ban, but it seeks to limit the imports of finished goods through licensing. The distinction between a ban and a limit has not been well understood by the general public and some in the business fraternity. Some of the products covered under the regulation include:

a. Coffee creamers

b. Camphor creams

c. Plastic pipes and fittings

d. Metal clad insulated panels

e. Baked beans and potato crisps

f. Cereals, bottled water, mayonnaise, salad cream, peanut butter, jams, maheu, canned fruit, vegetables, pizza base, yoghurts, flavoured milks, dairy fruit blends, ice creams, cultured milk and cheese.

g. Second hand tyres

h. Baler and binder twines

i. Fertilisers (urea and ammonium nitrate), compounds and blends, tile adhesives and tylon, shoe polish, synthetic hair products.

j. Flash doors, beds, wardrobes, bedroom and dining room sets, office furniture and tissue wading.

k. Woven fabrics of cotton

The SI covers a list of imports, mostly finished goods, which can now only be imported under permit contrary to the previous liberal trading regime. Its objective has been to stem foreign exchange outflows, whilst at the same time seeking to extend some measure of protection to the domestic industry where capacity utilisation had collapsed to 34.3% in 2015 (CZI, 2015).

1.3 Rationale of the SI 64/2016

The rationale of the instrument is to protect local industries with capacity to satisfy domestic demand as well as to solve foreign currency problems caused by externalisation of foreign currency. The government has indicated that this non-tariff barrier is required to stimulate domestic production, through increasing capacity utilisation whilst also serving as a demand management measure to limit the excessive use of scarce foreign currency for imports. The measure also recognises the need to encourage some measure of import substitution, particularly for those commodities that the country has capacity to produce. This is expected to contain import demand, leading to a reduction in the trade deficit. It is important for one to understand that a number of countries have used different forms of non-tariff barriers (NTBs) to protect their industries whenever they feel that their industries are under severe threat from imports.

Thus, imposing import restrictions is not peculiar to Zimbabwe alone as other countries including South Africa, which is our greatest trading partner, also has non-trade barriers in place in the pharmaceuticals where it insists that pharmaceutical goods from Zimbabwe be transported by Air. This requirement makes Zimbabwean drugs expensive as compared to those made in South Africa.

Furthermore, South Africa has this year devalued its currency several times and this saw an increase in the number of South African products in the Zimbabwean economy as the devaluation of the currency has made South African products cheaper to consume than locally produced ones. What it means is that Zimbabwe would be helping to expand the South African economy at its own expense as industries in South Africa would employ more people in order to meet the increased demand. Zimbabwe imported goods worth US$420 million from South Africa in the first three months of 2016 against exports of US$214 million (ZimTrade Trade Statistics Database, 2016). Checking these facts, one would clearly see that import restrictions were necessary and would help even to reduce externalization of the United States dollar.

Industry has been making strides towards retooling in spite of the difficult economic environment, and there is therefore, need to acknowledge and support these efforts by creating an environment that favours the revival, resuscitation and development of local industry. This in fact is in line with the country's industrialisation and beneficiation agenda.

1.4 Significance of the study

While the SI seems to have support from domestic industry, there have been objections voiced by Zimbabwe's neighbours such as South Africa and Zambia about the legitimacy of such import restrictions given the country's commitments under various Trade Protocols. Additionally, it is not clear whether the SI is in fact giving protection to industries which have available short-term capacity that can be increased to meet increased demand for those products that have been restricted. In some cases it has been observed that the protective measure has only enabled domestic producers to increase their prices without any effort to increase production, thus negatively affecting both domestic supply and prices.

In this context, it has therefore, become necessary for the public and private sectors to conduct a review of SI 64/2016 with a view to assessing its efficacy in addressing the immediate and medium-term needs of industry and the economy at large. The Ministry of Industry and Commerce, therefore, requested that such a review take place, which was also supported by the Confederation of Zimbabwean Industries and the Zimbabwe National Chambers of Commerce.

The review will also establish the extent to which the measures either complement bilateral, regional (SADC, COMESA, Tripartite Free Trade Area (TFTA), multilateral trade (WTO)) interests, or jeopardize the same. The study will also consider other policy options which may be more appropriate to achieve the specified objectives.

1.5 Objectives of the Study

The main objective of the study is to conduct a critical review of the SI 64 with a view to assessing its efficacy in addressing the immediate and medium-term needs of industry and the economy at large. The specific objectives derived from the broad objectives are to:

a) Undertake an assessment of the various Trade Protocols (e.g. SADC, COMESA, WTO, etc.) that Zimbabwe is a signatory to, with a view to establishing whether import restrictions such as SI 64 are permitted, and additionally under what circumstances derogations to free trade are possible, and the procedures to be followed in such cases.

b) Critically evaluate SI 64 to establish whether the list of products is appropriate in terms of whether domestic industry has the capacity or short-term potential to expand production and meet market demand given the current constraints relating to cost of finance, power and other infrastructural constraints, etc.

c) Recommend alternative policy options which are consistent with Zimbabwe's industrialization strategy, and trade commitments, which may offer better solutions to achieving competitive import substituting production capacities in the short- and medium-term, whilst remaining mindful of the long-term objective to build robust domestic industry capacity and competitiveness.

d) Propose a rationalization of SI 64 in manner which will better achieve the economic objectives of reducing import dependence and promoting domestic production without jeopardizing current Government-wide reform efforts to enhance competitiveness

1.6 Methodology

The study made use of both secondary and primary sources of data. The secondary information came from past documents regarding Zimbabwe's participation in regional and multilateral trade organisations. Primary data came from questionnaires which were distributed by the Confederation of Zimbabwe Industries (CZI) and Zimbabwe National Chamber of Commerce (ZNCC) to its membership. The Consultant also got some data from discussions with Officials from CZI and Ministry of Industry and Commerce, with that data set complemented through review of Journals and publications on the subject. Furthermore, some data was obtained from feedback on the effects of SI 64/2016 to the CZI and Ministry of Industry and Commerce from various manufacturing companies.

The primary data provided detailed information about specific issues related to companies themselves that include levels of operating challenges, production volumes, impact of SI 64/2016 and proposals for moving forward. The target population comprised manufacturing companies that are members of CZI and ZNCC who are producing goods covered in the SI 64/2016.

1.7 Limitations of the study

A number of aspects affected the practical effectiveness of the Survey. They are summarized below.

The study was carried out less than three months after the promulgation of the SI 64/2016 hence making it difficult for a detailed assessment of the impacts to be carried out. For some companies, they are still in the process of organizing their production plans and have not yet started enjoying the benefits brought about by the SI 64/2016. Furthermore, local demand for some products like tinned beans has not yet changed as retailers are still to clear stock which they had in their warehouses. The other problem which the study faced was that the time period was short for all the companies to have responded to the questionnaires sent.

The other limitation which the study faced was that a number of company officials refrained from completing the questionnaire, preferring to provide information only through unstructured interviews. In addition, some of the firms were not willing to divulge some information especially that which might indicate their profitability. This probably reflects fear or lack of confidence in the purpose of the Survey. The perception seems to be that the information will be used to their disadvantage by the relevant authorities.

2 Problems likely to arise from the SI 64/ 2016

If the implementation of SI64/2016 is not complemented by increased local production, then there is a high possibility that the domestic prices of the listed products would increase as sellers would shift the tax burden to the consumers through increased prices, given that most of the listed commodities have an inelastic demand due to the fact that there will not be enough of the local substitutes.

In May 2016, the Oil Express Association of Zimbabwe reported that local cooking oil manufacturers have a capacity to produce 20 million litres per month which is almost double the national requirement, yet this could not be fulfilled due to raw material shortages on the local market, forcing local industries to import crude oils. This shows that the imposition of the ban on imports of cooking oil had some flaws and the implementation of the SI 64 is likely to face the same fate as the instrument is not clear on how it will support value chain systems development. The policy should have also focused on what can be done to boost supply of raw materials such as soya beans, sunflower rape seed and other inputs required for the production of cooking oil.

Industries have closed down due to both external and internally induced production challenges. The manufacturing sector, which is still to recover from a decade long (2000-2008) industrial dislocation, has accounted for a protracted collapse in industrial capacity utilization. According to the CZI, capacity utilization at enterprise level improved from 32.3 per cent in 2009 to 43.7 per cent in 2010 and 57.2 per cent in 2011 owing to the stabilising effects of the multi-currency regime and upturn in business confidence. It then declined once again to 44.9 per cent in 2012, 39.6 per cent in 2013, and 36.5 per cent in 2014 before receding to current levels of 34.4 per cent in 2015, owing to the drought induced slowdown in economic activity. Among some of the key factors blamed for the current state of manufacturing sector performance are:

- High domestic cost structure, due to the erratic supply and nature of domestic utilities such as power and rail transport;
- Obsolete equipment due to lack of capitalization in the sector;
- unavailability of long-term and affordable funding curtailing scope for expanded investment decisions and capital development at enterprise level;
- Limited raw materials through-put from the agricultural sector due to the poor performance of the primary sector,;
- Weakening domestic demand on account of liquidity problems;
- Weakening domestic and international investor sentiment.

Government policies need to complement each other for them to work out. Zimbabwe needs to revive its primary sector, particularly agriculture production to boost prospects for value addition development in the secondary stage of production. Imposition of import barriers to protect local industries which are not operating or underperforming due to inefficiencies will inevitably cause shortages and hence price increases if the supply side bottlenecks that have always affected production are not attended to.

Import controls under the SI 64 have the possibility of causing retaliation from affected regional and global trading partners who were caught unaware. Since we also export our goods to other countries, they can also impose import controls for our products resulting in a zero sum game. Import controls also violate the principle of free trade of goods as enshrined in the WTO principles. If Zimbabwe’s trading partners realize such unfair trading practices, they can institute countervailing measures against us which in the extreme circumstances may lead to penalization of Zimbabwe through compensation of those injured by the unfair trade practice, which in this case will be the import controls.

2.1 SI 64/2016 and the Bilateral, Regional and Multilateral Trade Agreements

While discussion and debate on the SI64 has virtually been inward-looking and centered around the domestic implications of the SI 64/2016 such as its impact on domestic production and how it is going to affect the generality of consumers, there has generally been no consideration of the international impact of the SI 64/2016. It is therefore, critical that for every policy implemented, an evaluation of the international consequences of such a policy be carried out to check if the policy is compatible with bilateral, regional and multilateral trade agreements to which the country is a signatory. For Zimbabwe, this is important especially at a time the country is reengaging with the international community. A closer look at the events leading to the promulgation of the SI 64 suggests that the government's action when it gazetted the instrument infringed rules of international trade.

In order to understand the possible far reaching consequences of SI 64/2016, it is important to highlight on some of Zimbabwe's present commitments at the bilateral, regional and international level and the procedures to be followed when a member intends to impose non-tariff measures to protect trade.

2.1.1 Zimbabwe and Southern Africa Development Community (SADC) membership

The import restriction under the SI 64/2016 dampens the spirit of Zimbabwe's commitment to free trade within the region under Southern African Development Community (SADC) as well as the Common Market for East and Southern Africa (COMESA) treaties. On the one hand, the SADC protocol on Trade was signed and adopted by SADC member states in 1996 and implemented in 2000. It facilitates the free movement of goods and services across the region, with 12 members of the region, including Zimbabwe, fully participating. By placing restrictions and bans on some imports, Zimbabwe is now reneging on its commitments under SADC and is likely to court a backlash for that. The first part of the Trade Protocol is devoted to trade in goods and the removal of trade barriers including quantitative restrictions. Subject to a few exceptions and the national treatment rule, Article 7 of the Trade Protocol states that 'Member States Shall not apply any new quantitative restrictions and shall in accordance with Article 3, phase out the existing restrictions on the import of goods originating in Member States, except where otherwise provided for in this Protocol'. Therefore, under the SADC Trade Protocol, it is retrogressive for a country to introduce new quantitative import restrictions.

2.1.2 Zimbabwe and the Common Market for Eastern and Southern Africa (COMESA)

On the other hand, Zimbabwe has been active in COMESA and has been participating in the COMESA Free Trade Area since its inception in 2000 and therefore, as per the Treaty, the country has liberalised trade by removing tariff and non-tariff barriers including quota restrictions, except if allowed by Council. Under the COMESA Customs Union it had committed to the proposed Common External Tariff (CET) based on the principle of the degree of processing capital (zero percent), raw material (five percent), intermediate inputs (15 percent) and finished goods (30 percent). The fact that the import licences and permits may take long to be issued acts as a non-tariff barrier to trade, especially in a Free Trade Area environment. Article 45 of the Treaty, in part, says, "Non-tariff barriers including quantitative or like restrictions or prohibitions and administrative obstacles to trade among the Member States shall be removed". Justifiable grounds for quantitative and other restrictions to trade are provided for in the Treaty as follows:

1. Balance of payments difficulties; Article 49 (5)
2. Security and other restrictions; Article 50
3. To protect an infant industry; Article 49 (2)
4. Safeguard clause where there is a surge in imports that injure or threat to injure a domestic industry; Article 61
5. Anti-dumping; Article 51
6. Countervailing duties; Article 52

In all these cases proper notification and justification should be made to the Secretariat and other Member States before the measure is put in place. However, as of now, the Secretariat has neither been notified of this Statutory Instrument nor the justification for it.

2.1.3 Zimbabwe and other Bilateral Trade Agreements

Furthermore, Zimbabwe is signatory to a number of bilateral trade agreements with countries such as Zambia, Botswana, Namibia, Malawi, South Africa and Mozambique. The country ratified its bilateral trade agreement with Botswana in 1988 which allows for reciprocal duty free trade on all products grown, wholly produced, or manufactured wholly or partly from imported inputs subject to a 25 percent local content requirement.

2.1.4 Zimbabwe, GATT 1994 and WTO Membership

Zimbabwe has been a member of the World Trade Organisation (WTO) since its inception in 1995. The WTO is a key intergovernmental organisation whose main purpose is to maintain orderly international commerce through trade by negotiating and maintaining a variety of trade agreements. The WTO also has a highly utilized neutral dispute settlement system which member countries fall back on when things go wrong as they do in global trade.

Quantitative import and export restrictions against WTO Members are prohibited by the General Agreement on Tariffs and Trade (GATT) Article XI:1. The article states that "no prohibitions or restrictions other than duties, taxes or other charges shall be instituted or maintained by any Member..." One reason for this prohibition is that quantitative restrictions are considered to have a greater protective effect than tariff measures and are more likely to distort free trade. When a trading partner uses tariffs to restrict imports, it is still possible to increase exports as long as foreign products become price competitive enough to overcome the barriers created by the tariff. When a trading partner uses quantitative restrictions, however, it is impossible to export in excess of the quota no matter how price competitive foreign products may be. Thus, quantitative restrictions are considered to have such a greater distortionary effect on trade than tariffs that their prohibition is one of the fundamental principles of the GATT.

3 Justification of import licensing in International Trade

The WTO, COMESA, SADC and other regional trade agreements to which Zimbabwe is a signatory provides some exceptional cases when the import restrictions may be acceptable but provided that certain procedures and measures should have been put in place. Under these agreements, members are justified to take measures to protect domestic industries from serious injury caused by increased imports of certain goods. The injury need not have occurred already but even when increased imports threaten to cause injury, governments are within their right to take action. The reasons cited and widely reported to have led to the action of import restrictions under SI 64/2016 have been to do with the envisaged negative effects excessive imports are causing on local industry. Within the framework of SADC, COMESA and WTO, the negative effects of excessive imports can be remedied using safeguards. In addition, the action taken by the Zimbabwean Government through SI 64/2016 confirms that the Government had safeguards in mind.

Safeguard measures may also be seen as a safety valve for SADC governments to dilute protectionist pressures from local constituents. Safeguard measures apply to products in a non-discriminatory manner and regardless of the origin of the products within SADC. A member state may apply a safeguard measure only insofar and for so long as necessary to prevent or remedy serious injury and to ease adjustment. In any event, a safeguard measure must not last more than eight years, which should incidentally induce greater care in the state applying the measure.

In addition to safeguards, both the SADC and WTO agreements on trade allow members states to adopt antidumping measures. Article 18 of the SADC Protocol on Trade clearly states that ‘Nothing in this Protocol shall prevent any Member State from applying anti-dumping measures which are in conformity with WTO provisions’. While dumping has been mentioned from time to time, government’s response through SI 64/2016 is not consistent with typical remedies against dumping. Dumping is when imports are sold locally below their cost price in the exporting country. Anti-dumping actions, for example, would focus more on increasing import duty on the targeted products to bring them to normal value in the importing market.

Furthermore, since independence in 1980 Zimbabwe has not instituted any anti-dumping investigations nor opened any known anti-dumping cases in respect of the products in question against any country at the WTO which is a common practice when dumping occurs. This is despite the huge influx of cheap imports from Asia over the years. This leaves Zimbabwe's SI 64/2016 remedy to be a case of safeguards. The logic behind measures such as safeguards is that a country with a damaged industry, apart from local job losses, also loses its capacity to reciprocally trade with others and therefore loses its standing in international commerce. If this is allowed to happen at a large enough scale, the international system of trade itself which supports modern societies', prosperity, peace and security becomes dangerously threatened.

3.1 An evaluation of the compatibility of the SI 64/2016 with International Procedures and requirements when adopting an imposing Import licensing regime

The Agreement on Safeguards authorizes importing WTO Member countries to restrict imports for temporary periods if, after investigations carried out by the competent authorities it is established that;

i. import volumes are increasing in phenomenal quantities (either absolute or in relation to domestic production) as to cause serious injury to the domestic industry that produces similar or directly competing products and,

ii. The increased volume of imports should be the result of unforeseen developments and the effect of the obligations of the member in GATT 1994.

The Agreement states that the objective of the government in imposing safeguard measures should be to promote "structural adjustment" and to "enhance rather than limit competition in international markets". To this end it provides that such safeguard measures should be applied only for temporary periods to enable the affected industry to take steps to adjust itself to the increased competition that will follow the removal of those measures. Structural adjustment could take the form of the adoption of improved technology or modification of the production processes. Discussions with the Ministry officials indicated that the measures will provide relief to the targeted industries for 3 years beyond which the sectors should revert back to normally and are expected to be competitive. The 3 year horizon is also expected to help re-build the domestic industry. In this regard, however, SI 64/2016 itself does not state the time period the instrument will be in place.

Furthermore, when the policy was announced, Government should have outlined a clear plan on how to revive the local industry in line with the National Industry and Trade Policy. In this case they should have anchored SI 64/2016 within the current Industry and Trade Policy under review, 2012-2016. Under WTO disciplines, the maximum safeguard measures can go before a permissible extension preceded by a fresh thorough investigation is four years. The period for the duration of the agreement may be extended provided that the competent authorities of the importing Member have determined, in conformity with the procedures set out in Articles 2, 3, 4 and 5, that the safeguard measure continues to be necessary to prevent or remedy serious injury and that there is evidence that the industry is adjusting, and provided that the pertinent provisions of Articles 8 and 12 are observed. The total period of application of a safeguard measure including the period of application of any provisional measure, the period of initial application and any extension thereof, shall not exceed eight years.

The agreement on safeguards also states that the notification must be made before the measure is introduced. In exceptional cases, where delay in the introduction of the measure is expected to pose special difficulties to the industry concerned, the notification can be made immediately after the measure is imposed. Although the agreement allows the import restriction imposing country have the liberty to introduce the measure without giving enough notice, there was little notification of the SI 64/2016 which was given to all the concerned parties. The outcry and reported riots that followed after the gazetting of SI 64/2016 bear the hallmarks of an arbitrary measure. It appears some of the most important players such were caught unawares.

In addition, Article 3 of the SADC Protocol on trade states that consultations must first be made with the Committee of Trade Ministers in SADC before looking any adjustments to import policies. It also lists conditions and processes in which a member state must take in changing those regulations.

Under WTO rules, Zimbabwe was expected to carry out a thorough investigation that links the targeted imports to industry injury prior to the implementation of the measures. A causal link is crucial. If it cannot be established or if there are other factors involved then safeguards cannot be justified. There is debate as to what has caused injury to our industry. Is it imports alone or a combination of other internal factors? Many agree that a cocktail of issues some of them not related at all to imports have brought our industry to its knees. These include:

a. Use of the US dollar which militates against export competitiveness of local manufactures

b. Drought especially considering that the country's agricultural production is not dependable as it is largely based on rain fed farming

c. Liquidity and cash shortages,

d. reduced supplies of locally supplied inputs,

e. the losses of skilled personnel and,

f. weak commodity prices for many of its exports.

All of these problems are made more serious by the low levels of efficiency among the suppliers of electricity, water, telecommunications and municipal services and by the large numbers of people who have to depend on the earnings of the very few in steady employment.

Safeguard measures require that the WTO "member imposing them must pay compensation to the members whose trade is affected". Compensation has previously taken the form of reductions of tariff duties on certain products from the affected countries. Compensation payment also serves to make the cost of safeguards steep so that they are only used when it is really necessary and for a just and proven cause. This also shows that safeguards are an exception and not the norm in international trade. As to whether Zimbabwe will actually get around compensating anyone is another matter, apart from damaging our international reputation in trading circles, it provides a legal basis for those affected to take it up using the Dispute Settlement System of the WTO, or worse still, retaliation. The WTO provisions require that affected trading partners be compensated for their losses. South Africa as the major trading partner for Zimbabwe is likely to be amongst the biggest casualties of the SI 64/2016. In that regard, South Africa has a right to demand compensation from Zimbabwe for its losses brought about by SI 64/2016. Although South Africa have not yet indicated that it might seek compensation from Zimbabwe, monetary compensation might be out of the question because of Zimbabwe's financial position but more importantly due to the complex nature of arriving at a fair amount, compensation can be done by way of reduced tariffs applied on other imports coming from affected countries.

Over and above the justification for these nontariff barriers, government was also expected to submit a Notification to the WTO informing of the measures taken. Research has shown that no notifications have been made to WTO in respect of the new regulations.

4 A preliminary manufacturing Sub-sector Review of the Relative impacts of SI 64

4.1 Positive Impacts of the Statutory Instrument:

4.1.1 Increase in Capacity Utilization

The study results have revealed that a number of undoubted successes have been recorded since the implementation of the SI 64/2016. The successes recorded are generally in almost all sectors covered in the SI 64/2016 with a few industries recording negative impacts. In most industries which have recorded positive growth most companies highlighted that they have recaptured the local market from suppliers of imported products. Those sectors that reported to have recorded positive growth include the furniture industry, dairy processing and food and beverages among other many sectors. According to one local media[1] report, the SI 64/2016 has so far resulted in some sectors experiencing growth in production and local demand by between 30% and 50%. Other positive developments that have also been reported in the local media include the decline in imports by 14% as well as creation of employment due to increased orders. However, the needed increases in buying power await the private sector investment decisions that will lead to a demand resurgence and help create employment. According to the survey results, some of the positive impacts that have been realised since the implementation of the SI64 include the following:

- Increase in capacity utilization which have resulted in some companies making various retooling activities
- Increased employment levels
- Increased activities in the respective value chains
- Increased product lines
- Increased local demand
- Increased exports for some companies as capacity increases

4.2 Negative impacts;

A strain on capital development initiatives by some subsectors

[1] The Herald, Friday 23 September 2016

On the downside, there are some companies which have reported that the SI 64 had negatively affected their operations. Most of these highlighted that the instrument included some products which they use as raw materials in their production which has been exacerbated by the failure by local producers of those products to supply the desired quantities and quality. In some cases, the local raw materials do not meet technical specifications for competitive production upstream on the sub-sector value chains and companies had since upgraded their quality and technology specifications to upscale production, and remain competitive. This, in such cases had diverted business from local raw material suppliers, who could not upgrade both capacity and technology to meet the raw material standards of growing and aggressive small- to- medium-scale enterprises who continued to deploy strategies to navigate the negative effects of the unfavorable domestic business-operating regime.

Such a trend was observed in the tissue manufacturing sector (whose situation we will review later), which has been dominated by a single monopoly for years, and has only seen a phenomenal growth in small-medium-enterprises during the late 1990s onwards to take up a substantial part of the domestic market share to compete with international brands from South Africa and Asian markets. It would appear, though, that some of these raw material suppliers, who in some cases are not themselves an industry but part of integrated business models and hence constituting group strategic unit production set-ups for vertically integrated industry conglomerates, were viewed as sectors upon development of the SI 64/2016 and resulted in the inclusion of some products which would not have been included.

4.2.1 Trade liberation and domestic competitiveness put under test

Whilst trade liberalization during the 1990s changed the entire manufacturing sector business production model from the dominance of vertically integrated systems as the economy opened up and access to competitive raw material supply markets improved, both locally and abroad, most niche production units have pursued horizontally integrated business models, opening up opportunities for growth of SMEs. Foodstuffs, dairy processing, agro processing, clothing and textiles, and cooking oil expression, among other sub sectors, were largely built around vertical integration production models inherited upon independence in 1980 to secure raw material supplies in the face of a largely controlled and regulated domestic production regime and import substitution industrialisation (ISI). With liberalization during the Economic Structural Adjustment Programme (ESAP) era of 1991- 1995, and beyond, we have witnessed a major structural shift and transformation in the manufacturing sector. Hence, to date a few such vertically integrated production models exist. As the government has taken steps to improve competitiveness and sparingly use protectionist policies in line with regional integration endeavors under SADC and COMESA, placing much emphasis on tariff liberalization, some footprints of the 1980s highly inefficient production systems have continued to exist to influence present day dynamics in industrial lobby politics. Without adequate evidence-based research, government has been unable to take strategic medium- to- long-term decisions on industrial economics, hence conflicting the current thrust and policy dynamics on industry and trade espoused in strategic government documents. These include the National Industry and Trade Policy 2012-2016 and ZIMASSET 2013-2018 that place emphasis on building local viable production value chains and domestic competitiveness, largely at variance with the need to pursue protectionist policies that to a large extend dampen our commitments to regional trade protocols.

Government, therefore, needs to strike a balance that on one hand deals with improving industrial sector competitiveness and recovery, the dynamics of enterprise level productivity and efficiencies and on the other hand must be costed against the medium- to long-term endeavors and aspirations to build strong domestic value chains that can transition into initially regional integrated value chains for eventual integration into global production chains. That way, competitiveness, both domestic and regional, can anchor survival in Zimbabwe's industry and commerce and guarantee a durable and sustainable competitive production capacity in the country in the medium- to long-term.

Whilst, agreeing with government on the rationale for SI 64/2016, most companies expressed concern that the measures were to some extent a threat to value chain development endeavors that ZIMASSET has espoused.

Measures should have been complemented by other ancillary re-tooling and key utility refurbishment programmes

Evidence gathered from companies interviewed revealed that inasmuch as the SI 64/2016 breathed life into some industries that were on brink of collapse, the full recovery of industry will have to await the completion of the extensive repairs and maintenance backlog that most enterprises are currently encountering due to disinvestment over that last 16 years. Such an industrial dislocation will take some time and resources to fix, hence motivating the need for other comprehensive ancillary measures that could cover industrial retooling programmes at affordable costs. Contemplating such measures from government at the moment would not be easy given the current challenges worsened by a shrinking fiscal capacity on account of a slowdown in economic activity and the fragility of the domestic economy. For instance, on the utilities side and economic enablers, infrastructure upgrades at Hwange and Kariba Power stations in particular, though underway, require a substantial capital budget. While the completion of work will take years, energy is a strategic utility for ramping up industry capacity utilization. In the medium-term, the introduction emergency power plants as part of the Ministry of Energy and Power Development’s short term measures to cover up for the reduced generation output from Kariba due to upgrades underway is expected to generate 200MW and therefore reduce the power shortages the country is currently experiencing (Government of Zimbabwe, 2015)

The study results also revealed that funding and power shortages as well as the skills shortages are also serious problems for those wishing to restore former production volumes at competitive prices. Since the implementation of the SI 64/2016, capacity utilisation has started to improve in some areas of manufacturing, but the evidence strongly suggests that the severe power cuts alone will continue to make significant increases in output impossible for most factories. Although the extent of the recovery that does prove possible might look impressive because it will be off a very low base, the constraints presently affecting output are certain to continue imposing severe limitations for as long as they remain in place. These will be reinforced by the reluctance of buyers on the domestic as well as export markets to place too much reliance on Zimbabwe's suppliers at this stage.

4.3 Sectoral impacts of the SI 64/2016

4.3.1 The Furniture Industry

The Sector has the capability of supplying furniture in various forms and styles to suit the demands of the Zimbabwean and regional markets. The sector is divided into two that is formal and informal and both are key suppliers to Zimbabwean's retail market. Companies in this industry produce mainly lounge suits, wooden household furniture, mattress and beds, hotel furniture, doors, office furniture and other wooden products. In total, companies in the formal sector employ more than 3 000 people (Zimbabwe Furniture Manufacturing Association, 2016).

According to some feedback to the CZI and Ministry of Industry and Commerce from companies in the furniture industry, the introduction of SI 64/2016 has positively affected production and employment levels in the industry. Overall, study results shows that for firms in the furniture industry, the implementation of the SI 64 and the existing Furniture Manufacturers rebate, have increased capacity utilisation from 45% to around 60%. As a result of the increasing capacity utilisation, some companies have increased their employment levels by between 5% and 15% although on a contractual basis. Most companies in this industry that have recorded improvements in capacity utilisation are those producing doors, mattresses and other bedding products.

Specifically for the firms in the manufacturing of doors, since the implementation of SI 64/2016 in July 2016, local demand has increased by about 35% and the market is still growing whilst those in the manufacture of mattresses and other bedding products have witnessed an average increase in capacity utilization of 15% from 70% in June 2016 to the current levels of around 85%. Some of the firms in the Furniture Manufacturing sector have even increased their operating days from a 5 day per week working programme to 6 days per week and are now running shifts. From the study, it has been found out that firms manufacturing mattresses and other bedding products have also increased the labour work force by 15% during the period June –September 2016 and their VAT contributions have more than doubled.

Despite the positive impacts which SI 64/2016 has had on the furniture industry, it has also negatively affected the operations of the sector. The main problem at the moment is that whereas SI 64/2016 was supposed to help manufacturers it has also become a major hindrance to the manufacturers. Clause (iv) of SI 64/2016 amends Statutory Instrument 8 of 1996 to include 'Other furniture and parts thereof and other metal furniture of steel kitchen units classified under headings 9403:2090 of the customs tariff' on the schedule of goods removed from the Open General Import Licence. From this, one would think that it is clear that they must control the import of anything under tariff 9403:2090. However tariff 9403:2090 does not exist; there is only a tariff 9403:2000. But that being said, the main tariff – 9403 – says "Other Furniture and parts thereof" which is exactly the words used in the SI 64/2016. A further analysis of the tariff headings shows that the 94 represents furniture. The 03 represents parts thereof and then the other number will represent the actual type of furniture etc. Therefore it is highly likely that when ZIMRA uses the tariff number 9403 they would never be controlling the import of all parts thereof of furniture as these do not fall under the tariff 9403. Furniture hardware actually falls under tariff 8302.

In addition, the furniture industry highlighted that as bona fide manufacturers they need to have some form of protection to make sure that they do not have to go through all the expensive procedures of applying for licenses etc. They indicated that SI 64/2016 is supposed to make them more efficient and more competitive not less efficient and more expensive. The major problem cited was that as a result of SI 64/2016, they are now required to apply for permits for all the listed materials in Table 1. In addition, they are facing administrative problems as the processing of permits is taking long and the collection of permits is done on Wednesdays and Thursdays only. According to the companies surveyed, all the items listed in table 1 now need a permit to import yet they do not fall under the tariff heading 9403.

Table 1: Furniture Products that now require Import Licence

PRODUCT	TARRIF	DUTY %
Medium Density Fibre Board		
MDF	44101100	0%
Hardboard 3mm	441112	0%
BOARDS On Melamine	44101100	0%
Chipboards	44101100	0%
Other Plates, Sheets, Films, Foil and Strips of Plastic		
Plastic Kitchen Accessories	39263000	40%
PVC Foils	39204900	10%
PVC Edging	39211200	5%
Plastic Legs	39263000	40%
8302 Other Parts of Furniture Thereof		
Sinks And Fittings	73241000	15%
Metal Brackets	8302400	20%
Kitchen Hinges	8302400	20%
Ball Bearing & Brackets	83025000	20%
Screws	73181500	15%

Handles	8324200	20%
Wire Baskets	73269099	15%
Kitchen Hardware	83024200	20%
Wood Sawn or Chipped Lengthwise, Sliced or Peeled Weather or Not Planed, Sanded or End Join		
Raw Timber	44072900	0%
Packaging Cases, Boxes, Crates, Wood Pallets , Box Pallets.		
Wooden Packaging Crate	44152000	40%
Sheets For Veneering Those Obtained By Slicing Laminated Wood		
Veneer Edgings	44079900	0%

Source: Furniture Manufacturers Industry Association

In addition to the problems raised above, some of the furniture manufacturing firms reported that due to some of the issues raised above with regards to some products which are mainly raw materials which now require import licence, the implementation of SI 64/2016 have resulted in marginal increases in prices of some of their products. This is resulting from the cumbersome process of getting an import licence which forces some companies to buy some of the raw materials from local people who are importing them for resale.

It is recommended that Government put in place measures to ensure that companies do not import raw materials for resale. In fact import licenses for raw materials must only be given to companies that are directly involved in the manufacturing of furniture instead of giving licenses to importers who would resale to actual producers using the raw materials.

Current efforts by companies in the sector to address some of the constraints faced

Firms in the furniture manufacturing industry highlighted that since SI 64/2016 came to the industry as a relief, they have also taken upon themselves to come up with measures that will buttress SI 64/2016. They have adopted a multi-thronged approach to address some of the challenges the industry is currently facing. They are doing this through their business associations which includes CZI, ZNCC, and Zimbabwe Furniture Manufacturing Industry Association and also at an individual company level. Some of these efforts include the following:

- Constant liaison with banks to access and get allocated adequate foreign currency timeously.
- Opening of additional corporate bank accounts to ensure as many options available as possible to be able to access funding to pay suppliers.
- Acquired generators and on-going maintenance of existing machinery to keep it functioning at optimal level
- Regular dialogue with Furniture Manufacturing Industry sector companies to discuss and lobby for changes in these areas.
- Discussion with suppliers on legal alternatives for sourcing funding to be able to pay for imported raw materials.

Proposed review and rationalisation of the SI 64 for the sector

To ensure that the SI 64 is effective in achieving its intended objectives, there are a lot of issues which the industry feels need attention. Some the issues highlighted by industry include:

- Swifter turnaround periods of import licenses/permits by Ministry of Industry and Commerce
- Swift border clearances –ZIMRA to place raw materials for manufacturing on priority route and reduce clearance period to maximum of 2 days.

- SI 64/2016 should be more specific on the products that require import licenses i.e. use specific tariff codes to avoid the inclusion of products not covered under SI 64/2016 being treated by ZIMRA as part of goods covered under SI 64/2016

- Import licenses/permits for raw materials should be processed faster or has manufacturers on an agreed and approved list of manufacturers that import raw materials that then do not need licenses and these will be approved by Ministry of Industry and Commerce in liaison with Furniture Manufacturing Industry Association.

4.3.2 Fertilizer Industry

The fertilizer Industry in Zimbabwe was borne out of the import substitution industrialization programme of the Rhodesian Government who harboured a strong desire to establish an independent national economy. Even the independent Zimbabwe in its Statutory Instruments 137 of 2007 and 144 of 2012 also included fertiliser among the list of products restricted for importation and exportation or that required import licensing failed to stimulate domestic production of fertiliser in the country. The previous instruments failed to achieve the objectives with respect to the fertiliser industry because in both cases they were gazetted with no deliberate policies to make the country a competitive producer as well as measures put in place to enable companies to access capital for retooling factories. In the latest instrument, SI 64/2016 the product was again included in the list of products that require an import license. A closer look at the SI 64/2016 shows although the SI 64/2016 is aimed at boosting local fertiliser production, the SI will negatively affect the local fertilizer producers and may limit the availability of fertilizers during the forthcoming Agriculture Season. This is because the SI has restricted importation of urea, and ammonia which are strategic inputs into fertilizer production. Furthermore, the fertiliser manufacturers indicated that ZIMRA has challenges in the interpretation of the instrument with regard to blend and compound fertilizers. The industry imports certain products (such as Mono Ammonium Phosphates) which are raw materials required for the manufacture of blends and compound fertilizer. ZIMRA has been treating these raw materials as finished products and thus has resulted in some companies being penalized for wrong declaration.

4.3.3 Metals and Building Materials

Industries in the manufacturing of metals and building materials indicated that SI 64/2016 had both positive and negative impacts on the companies in the industry. Since the operationalization of the instrument most companies reported that they have recorded increases in production and employment levels due to increased demand for their products. Some companies singled out the removal of products classified under 7210:4100 from the Open General Import Licence (OGIL) as a great milestone towards the revival of the industry as this opened market opportunities for the firms in the industry. Despite the positive effects registered, some firms in the industry raised a number of issues which have negatively affected their operations. Some of the issues raised include the following:

- The SI 64 only covered doors, window and their frames of iron and steel. In that respect they called for inclusion of angle hot rolled, flat bars, window section and T section.
- Inclusion of some raw materials for example raw materials for Galvanised coil for processing under tariff heading 7210:4100. The company sought clarity on the position as ZIMRA was requesting a license for galvanized coils that fall under 7210.7000. The SI is specific on the tariff code that needs the license and the specified tariff relates to the corrugated sheets as these are finished products.
- Industries producing animal drawn agricultural implements requested to be included on SI 64/2016 after noticing success in other industries.

4.3.4 Metal clad insulated panels

The players involved in the production of Metal clad insulated panels commended SI 64/2016 as it has resulted in an increase in capacity utilization after several years of cheap imports threats. One refrigeration company raised some concerns pertaining to SI 64/2016 where it is cited that the SI benefited one company which manufactures insulated panels which does not meet local demand. The company was also cited as a competitor and its products are inferior in terms of quality and price.

4.3.5 Food and Drink

Some of the products that were included in the S.I. 64 of 2016 include cremora, canned fruits, jams, potato chips, cereals and peanut butter. To date, there has been a significant change in terms of demand for jam since there are no imported brands on the local market. The local manufacturing companies are now controlling more than 60% of the market on canned fruits and peanut butter. Some companies have invested in peanut butter plants. Some have engaged in contract farming for their basic raw materials such as beans and others are contemplating to engage local farmers for the production of ground nuts.

Companies producing beverages such as maheu reported since promulgation and implementation of SI 64/2016 they have recorded significant growth in demand for their product by the retail sector. For example, there is one firm which is now supplying 50.4 million litres of maheu representing about 92% of the national demand of 55 million litres. A firm in the manufacture of mayonnaise reported that it has recorded increases in local demand which have driven the demand for eggs which are used as an input in the production of mayonnaise.

Furthermore, manufacturers of potato crisps and other snacks also reported that they have registered growth in their order books since the implementation of SI 64/2016. The companies have requested for the review of SI 64/2016 to include maize extruded snack and chewing gums as the local producers have the capacity to meet local demand for the products.

4.3.6 Skin Care products

Positive movements have been cited by the players in the industry. Firms in the industry cited that they have recorded growth in their capacity utilization levels. For some firms, before SI 64/2016, capacity was at 30% and 10% shelf space. Now with SI 64/2016 in place, the firms reported an increase in capacity utilisation and shelf space from 30% and 10% to 48% to 50% respectively. One player in the industry highlighted that it has registered a 300% increase in demand for its products and is even failing to satisfy demand by the market whilst others indicated that sales volumes have since gone up and capacity utilization has edged up from 30% to 50% as of now on the camphor cream line but it is hoping to have reached 70% by year end.

Prior to gazetting of the SI the company was about to introduce a four working-day week and instigate salary cuts but these plans were not executed because of an upsurge in business.

Furthermore, there have been tremendous benefits to the downstream industries especially in the packaging industries where the firms reported an increase in demand from 37% to 60% since the introduction of the SI 64/2016. As for the SI 64/2016, the industry noted the inclusion of tariff code 3304:9990 under item 25 covers only camphor creams and body creams. Therefore they recommended the inclusion of tariff 2712:1010 for petroleum jellies.

4.3.7 Tissue manufacturing sector

The tissue manufacturing industry appreciated the promulgation of SI 64/2016 as a support tool for industrial regeneration. The industry in Zimbabwe heavily depends on imported *tissue wading*, a raw material required in the production of toilet tissue because the local industry cannot meet the demand for the raw material due to technical specifications which are not in tandem with the current machinery that most players have. Tissue wadding is unfortunately listed as one of the controlled imported products in SI 64/2016. In addition to this, the industry also competes for the market with finished toilet tissue imports accounting for 23% of the market share. Therefore the tissue industry calls for the removal of tissue wadding on the list of controlled imports to enable them to increase production as well as compete with imported finished products.

Impacts on the sector

The statutory instrument is likely to result in the sector scaling down its operations thereby resulting in massive job losses and thus militating against the ZIMASSET objectives of value addition and beneficiation. As the sector becomes both regionalised and globalised in terms of both forward and backward linkages, the control on imports of tissue wadding will distort the regional and global value chains.

Escalation of imported tissue products

Given that the SI has not targeted finished products in the case of tissues, there is a high possibility that South African imports will increase and take up the void left by local tissue manufacturers who will not be able to produce because of lack of tissue wading of the correct technical specifications. A visit to most retail shops in Harare showed that the stocking levels in these retail outlets that previously were being serviced by local tissue producers are already dominated by South African products in terms of shelving space. A local tissue manufacturing firm visited highlighted that if the SI remains in place in its current form, local producers will continue to cut back on production and thus expand opportunities for South African tissue products to flood the domestic market and even consolidate market share from current levels of 25% to higher possible levels of 55%.

Quality of local tissue products compromised

Given the huge investments done so far in the sector, the control on imports under SI 64/2016 have starved the state of the art investments made by local tissue manufacturers by forcing them to make use of the low quality raw materials currently obtainable in the local market. This has compromised the quality of the final tissue products produced locally.

4.3.8 Unfair treatment

The sector observed that there are some industries which benefit from related industries in their line of business in securing locally produced raw materials. An example is the tissue industry which consists of a firm which supply the other firm in the same line of business with tissue wading raw material. This means that the statutory instrument has threatened businesses which are not directly linked to the local tissue wading producers. Such businesses have found it difficult to get raw materials at fair prices, recommended quantity and quality as well as at reasonable time frame. This ultimately results in unfair competition for market share.

In light of the issues raised, the tissue manufacturing firms are calling for the following actions by the Government

- Remove tissue wading from the SI 64 of 2016 list as it is a raw material in the tissue industry.
- Only target goods considered finished products on the list of controlled imports.

- Take a sector wide approach to avoid selective application of the law. This has come in light of other firms in the sector who seem to be favored by the instrument and yet the firms still compete for the same market.

4.3.9 Textiles and Clothing

The manufacturers of fabric recommended the introduction of SI 64/2016 as it was giving them reprieve to grow their capacity. The players indicated that they were witnessing increase in enquiries and orders from local customers. On the other hand, the clothing manufacturers appreciated the introduction of SI 64/2016 but had reservations on the capability of local industries supplying in terms of composition, quality, quantity and lead time. They cited that the SI included some raw materials and this is not ideal for economic growth. The tariffs covered by the SI were including items that have not been made in Zimbabwe for a long time.

On the other hand, the study found out that the sector relies on imported fabric which meets the expected global quality. However, SI 64/2016 includes such imported quality fabric on the list of controlled goods and thus distorting the global value chains in the clothing and textiles sector. The instrument is welcome in restricting the imports of finished clothing products and not raw materials. The sector also raised concerns about the need to have an import licenses to be able to import fabric. The license fees are beyond their reach and thus the sector request the government to give them exemption and issue them with the requisite import licenses. Otherwise they face closure which will culminate in significant loss of jobs.

4.4 Impacts on the sector

4.4.1 Threat to closure

The textiles and clothing sector will be threatened with closure considering that their main raw material has been included on the list of controlled imports. This will affect the global value chains within which the sector is designed as well as shedding a lot of jobs thus defeating the Government's objectives as outlined in ZIMASSET of creating 2.2 million jobs by 2018. Most plants for companies in this sector were designed to specialize on a particular stage in the production process in which they solely depend on outsourcing of raw materials to manufacture high quality finished products with an international appeal. This is also enshrined in the WTO Trade in Value-Added initiative in which Zimbabwe is a member and has always proved to keep costs at reasonable levels.

4.4.2 Smuggling and corruption

The failure to meet local demand for the product due to controlled imports of raw materials is likely to result in increased cases of smuggling and corruption involving immigration officials. This will not only result in reduced revenue levels for the government, but also the possibility of ending up with cheap quality goods on the market.

In light of the issues raised, the textile and clothing manufacturing firms are calling for the following actions by the Government

- Remove woven fabric of cotton from the SI 64/2016 list as it is a raw material.
- Only target goods considered finished products on the list of controlled imports.
- The government should also make licences and permits affordable and reduce the time period taken to process the permits.

5 Recommendations

Industries have closed down due to obsolete equipment; unavailability of long-term and affordable funding; lack of raw materials due to the poor performance of the primary sector, especially the agricultural industry; and lack of investor confidence among other factors. It is therefore recommended that Government policies need to complement each other for them to work. It is important that Zimbabwe revive its primary sector which is the agriculture sector, and then we can talk of value addition in the secondary stage of production. This will help in developing a strong value chain system which is critical for sustained economic growth. A vibrant agricultural sector will ensure uninterrupted supply of essential raw material into the production process. A good example is the cooking oil industry where there are shortages of locally produced soya beans, sunflower rape seed and other inputs required for the production of cooking oil. It is thus recommended that government considers the promotion of soya bean contract farming in order to reduce the importation of crude oil and improve the value chain systems.

Imposition of import barriers to protect local industries which are not operating or underperforming due to inefficiencies will likely cause shortages and prices to increase if the supply side bottlenecks that have always affected production are not attended to. Government should outline a clear plan on how to revive the local industry. Under WTO disciplines, the maximum safeguard measures can go before a permissible extension preceded by a fresh thorough investigation is four years. The time period of three years, which the Ministry mentions verbally, for the import restrictions might be too long if there is clear plan to support the revival of industry and improve the competitiveness of local products.

The study findings revealed that for some manufacturing sectors, the SI 64/2016 tends to give a competitive advantage to selected firms in the same industry at the expense of others. An example is that of the refrigeration manufacturing industry where a firm is a supplier of metal clad insulated panels which are used as input into the production of refrigeration, and at the same time the same company is producing refrigerators. Now with the SI 64/2016 in place which restricts the importation of metal clad insulated panels the company being the sole supplier can abuse this by shortchanging other firms producing refrigerators by either limiting supply or increasing prices of the of metal clad insulated panels. It is therefore recommended that the Government should take a sector wide approach to avoid selective application and if necessary remove such products from the list of products under SI 64/2016 if it verifies such reports of abuse. The same applies for the tissue manufacturing industry as well.

Although the majority of sectors of the economy have revealed that they recorded growth in local demand since the implementation of the SI 64/2016 across the board there are concerns about the inclusion of raw materials in the list of products restricted under the instrument. In most cases, the local suppliers of those raw materials do not have the capacity to meet local demand or at times they are not price competitive thereby raising cost structures for the firms. In some cases, the local suppliers of the raw materials do not meet the technical specifications, and most companies have over the last 10 years invested in huge capital and technology upgrade initiatives to address both quality, and technical specifications such as size, thickness, elasticity, dexterity among some aspects as well as expanding scale economies to meet growing local demand. Local producers of some of these raw materials have not followed market trends and have not upgraded technology, most likely due to monopoly and group production dynamics hence negatively affecting their ability to meet the needs of emerging SMEs. This has negatively affected the tissue industry, which had since expanded plant size, technology and capacity, hence rendering the traditional suppliers from the domestic market that for years have enjoyed a monopoly irrelevant. This has over the years built new production dynamics that have supported the emergence of aggressive low-margin SMEs, which have been driven to compete neck on neck both on product quality and volumes with regional suppliers from South Africa.

A visit to local retail chain stores such as SPAR, OK Mart, Born Marche, Pick and Pay, among other retail outlets provides testimony to how the tissue industry has positioned itself to compete among some of the most viable local brands such as cooking oil. Thus, curtailing imports of strategic raw materials such as tissue wadding which the local industry cannot supply from a technical specification angle will wipe out SMEs that to date have accounted for nearly 25-30% of the domestic toilet and industrial tissue market, and hence destroy the prospects of a budding strong value chain development in the paper industry in Zimbabwe.

It is therefore, recommended that those products which are raw materials where local suppliers do not meet the local demand or technical specifications be removed from the SI 64/2016, and are placed back on the OGIL system, that is guided by trade liberalization tariff bands in line with our obligations under SADC and COMESA. This will ensure the growth and viability of potential value chains that have been nurtured over the last 20 years, and the principal beneficiaries of trade liberalization and shifts in the manufacturing structure over the years that has largely become more horizontally integrated and efficient – under this model, raw materials are sourced domestically, regionally and globally on the basis of price competitiveness. This is already bearing fruit through domestic competitiveness, and capacity to stand both domestic and regional competition as demonstrated by their capacity to supply the domestic market.

A review of the compatibility of the SI with regional and international treaties governing the conduct of trade have shown that although there are exceptional cases where the use of quantitative restrictions can be allowed as a tool to protect local industries, the same objectives can still be obtained by the use of equivalent tariffs. It is therefore, recommended that the country should consider the use of tariff specific interventions which are acceptable within the WTO framework as they are less discriminatory unlike quantitative restrictions which are prone to abuse by government officials. In line with our regional integration trading arrangements (SADC, COMESA), quantitative restrictions are discouraged given their potential trade distortionary and diversion possibilities. Currently the Zimbabwean Tariff Regime provides for a three tier tariff band, that seeks to encourage value addition, with raw materials sitting on the 0-5% band depending on the level of value addition, whilst intermediate goods are pegged within the 5-25% based on the same principle. Finished attract a duty of 40% minimum, given the need to strike a balance between protection and encouraging competition. Against this background government could have targeted specific tariff lines linked to specific sub-sector industry protection strategies, thus engendering transparency across the entire regional integration policy space. The current structure of the SI which singles out some key regional brands is tantamount to targeting specific country originating products, hence the protests from South Africa.

At any rate, Zimbabwe must properly notify the WTO and SADC of these trade measures in order to comply with their international and regional obligations in order to avoid trade sanctions from these organisations as well as retaliation from the affected countries. Furthermore, the policy might end up being costly for the country if affected members decide to use some of the provisions in the agreements such as that of seeking compensation if the country feels the policy has affected its trade.

6 Conclusion

Government has taken a sector approach towards protection of the domestic industry and hence the SI 64/2016 is expected to shield local industry from competition. However, immediate prospects of the hoped-for domestically-driven recovery remain affected by a number of supply side bottlenecks that have continued to haunt the local industry. Therefore the impact of the instrument on triggering recovery in the manufacturing sector will depend on a number of factors key of which should be a radical shift in the competitiveness of local firms, their productivity, head room to upscale capacity under the current liquidity constraints, and industry retooling challenges. Thus, even though in the short term the SI alone may not have the desired long term impact of developing local industry unless complemented by other comprehensive ancillary measures that improve the availability of affordable working capital and plant upgrade as well as retooling initiatives. Finally, if the SI is to achieve its intended objectives boosting local production, it should be reviewed in such a manner that will ensure that it does not bar the importation of raw materials. In such as case, the main target should be on controlling the importation of finished goods.

7 Bibliography

Government of Zimbabwe (2012), 'National Trade Policy document 2012-2016' Harare Zimbabwe

CZI (2014). 'The State of the Manufacturing Sector Survey 2014 Report', Harare Zimbabwe

CZI (2015). 'The State of the Manufacturing Sector Survey 2015 Report', Harare Zimbabwe

Government of Zimbabwe (2015). '2016 Budget Statement', Harare, Zimbabwe

Government of Zimbabwe (2016), 'Statutory Instrument 64 of 2016', Harare Zimbabwe

Government of Zimbabwe (2007), 'Statutory Instrument 137 of 2007', Harare Zimbabwe

Government of Zimbabwe (2012), 'Statutory Instrument 144 of 2012' Harare Zimbabwe

SADC (2015), 'SADC Industrialization Strategy and Roadmap (2015-2063)', SADC Secretariat, Gaborone, Botswana